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Report to Congressional Committees

July 1998

EMPLOYMENT-BASED HEALTH INSURANCE

Medium and Large Employers Can Purchase Coverage, but Some Workers Are Not Eligible

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Congressional Committees

Most Americans younger than 65 have health insurance, largely through their own or a family member's employment, but about 41 million people lacked health insurance in 1996. Concerned about insurers' willingness to offer policies to small employers and certain individuals, the Congress passed the Health Insurance Portability and Accountability Act of 1996 (HIPAA) (P.L. 104-191, Aug. 21, 1996) to improve access to health insurance. HIPAA contains provisions related to initial coverage, renewability, and portability of private health insurance. These provisions vary in their application to large and small employers who buy or wish to buy coverage for their employees and individuals attempting to purchase health insurance on their own. For example, HIPAA requires health insurance carriers operating in the "small group" market to accept any small employer that applies for coverage, regardless of the group's health status. This guaranteed-access provision does not extend to medium and large firms—those employing more than 50 employees. In addition, HIPAA does not directly address premium rates.

To help the Congress gain a better understanding of access issues in the larger group market, HIPAA required that we report on the extent to which classes of large employers in the different states have access to health insurance and the circumstances surrounding the lack of access (if any) to coverage.[1] This report provides the results of our study.[2] As agreed with your offices, we examined (1) the extent to which medium and large employers (those with 51 or more employees) in different categories and states have access to health insurance and the barriers (if any) these employers face in seeking health insurance, (2) major factors that affect employers' decisions to offer health insurance, and (3) the extent to which employees are eligible for their employer-provided health plans.[3]

To address these objectives, we analyzed government and private sector survey data on (1) the number of employers that offer health insurance to

[1]HIPAA also requires that the Secretary of Health and Human Services (HHS) report to the Congress on the extent to which large employers seeking to obtain health coverage in different states are able to do so. HHS' report to the Congress, due every 3 years, is to be based, among other things, on information that HHS will request each state to submit no later than December 31, 2000.

[2]Addressees are listed at the end of this letter.

[3]HIPAA defines large employers as those with an average of at least 51 employees during the preceding calendar year. We use the terms medium and large employers to emphasize the broad range of employers included in HIPAA's definition of large employer.

their employees by firm size, industry sector, and location and (2) employee eligibility rates by employment status, such as full-time versus part-time schedules and permanent and temporary work arrangements. These data pre-dated the implementation of HIPAA's provisions concerning access, renewability, and portability of private health insurance. We used the percentage of employers that offer health insurance—employers' offer rate—as a proxy for the extent of employers' access to the health insurance market. The offer rate is a widely used indicator of employers' access to health insurance but it is incomplete in that it measures only "realized" access. Some employers that do not currently offer health coverage nonetheless would be able to obtain coverage if they chose to purchase it; they have potential access that is not realized. In contrast, other employers that do not offer coverage to their employees may in fact lack access to health insurance. Existing government and private sector surveys of employee health benefits do not contain information that would permit employers with potential but unrealized access to be distinguished from those lacking access. To fill this gap, we interviewed industry experts and representatives from insurance agencies and brokers, state regulatory agencies, and employers in different states. Information from these interviews also supplemented our literature review on factors influencing employers' decisions to provide employer-based health insurance coverage. (See app. I for details on our methodology.) We conducted our work between September 1997 and June 1998 in accordance with generally accepted government auditing standards.

Results in Brief

Virtually all medium and large employers have access to group health insurance, and about 90 percent actually offer health coverage to their employees. The larger the firm the more likely it is to offer health insurance. For example, 1996 survey data show that about 96 percent of firms with 100 to 199 employees offered health coverage compared with about 91 percent of firms with 50 to 99 employees. Employers that do not offer health insurance are likely to be influenced by a variety of factors such as firm size, the wage level, and health insurance premiums.

Sponsorship of health insurance by medium and large employers varies moderately by industry sector and somewhat more widely by state. For example, health insurance offer rates of these employers ranged from 88 percent in the agriculture, forestry, and fishing industry sector to 99 percent in wholesale trade in 1993—the most recent year for which data are available by firm size for different industries and states. Across the states, estimated offer rates among medium and large employers ranged from 72 percent in Wyoming to close to 100 percent in 14 states in 1993. The highest offer rates were concentrated in the Northeast, including the six New England states, New Jersey, and Pennsylvania.

The propensity of an employer to offer health insurance depends not only on the firm's size but also on other, often interrelated workforce and firm characteristics, including employee earnings, labor turnover, and health insurance cost. For example, the likelihood of health benefits being offered increases with a higher proportion of high-wage employees in the workforce and a lower turnover rate. By contrast, some medium employers may be less likely to offer coverage if they believe that lower-wage employees would not enroll in the plans. In addition, medium employers may be less likely to offer coverage if insurers charge high premiums to cover the higher administrative costs of handling smaller groups or the greater variability of a smaller group's costs due to a catastrophic medical case. Data on the prevalence of these circumstances are not available.

Some employees of medium and large firms do not have access to their employers' sponsored health plans because of eligibility requirements. For example, many part-time and temporary employees are not eligible for coverage under their employers' health plans. The eligibility rate of part-time employees was about 31 percent in contrast to a rate of more than 80 percent for full-time workers in 1997. Although the majority of part-time employees nationwide have coverage—mostly through another family member's job or nonemployment sources—5.4 million were uninsured in 1997. Uninsured part-time employees represented about 27 percent of the roughly 19.9 million uninsured wage and salary workers that year.

Background

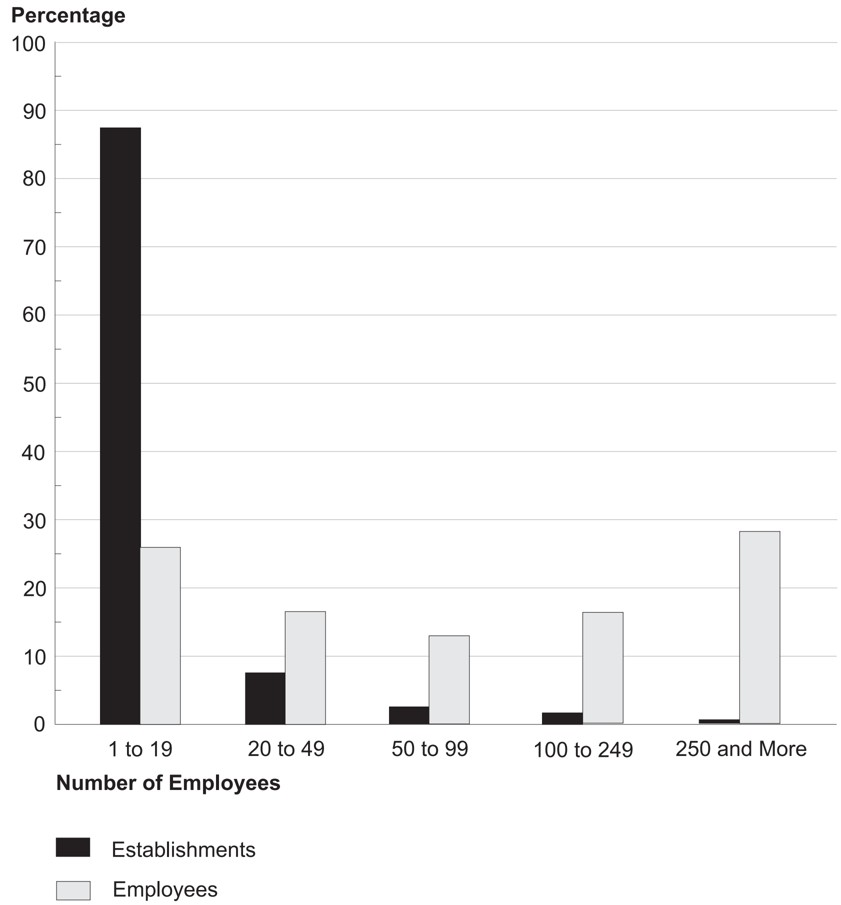
Employment-based health insurance is the leading source of private health insurance in the United States. In 1996, about 64 percent of the population under 65 years old had employment-based health insurance. This employer-based system of health insurance is almost entirely voluntary.[4]

The majority of private business establishments in the United States are small, but most workers are employed by medium and large employers. A business establishment is a single location where economic activity is

[4]Hawaii is the only state permitted under the Employee Retirement Income Security Act of 1974 to mandate that employers offer health insurance.

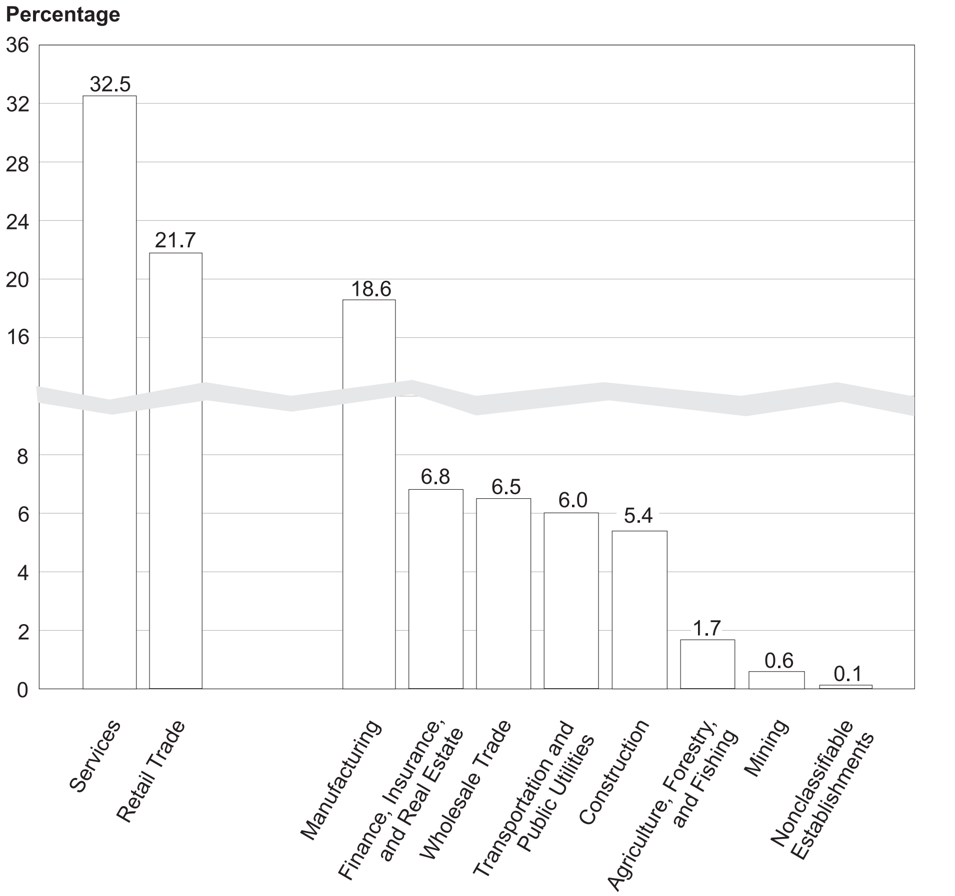
conducted. As shown in figure 1, establishments with fewer than 20 workers constituted about 88 percent of the total but accounted for only about 26 percent of the U.S. employment in 1996. In contrast, medium and large establishments, with 50 or more employees, represented about 5 percent of the total but accounted for about 58 percent of U.S. employment. Figure 1 also shows that more than one-quarter of all employees work for establishments employing 250 or more people, but these businesses represent less than 1 percent of all establishments. Three industries—services, retail trade, and manufacturing—accounted for the majority (about 73 percent) of all private sector employment in 1996. (See fig. 2.)

Figure 1: Relationship Between Private Sector Establishment Size and Employment Concentration, First Quarter 1996



Source: U.S. Department of Labor, Bureau of Labor Statistics, published November 1997.

Figure 2: Percentage of Private Sector Employment by Industry, 1996



Source: U.S. Department of Labor, Bureau of Labor Statistics, published November 1997.

Medium and Large Employers Have Nearly Universal Access to Health Insurance

Survey data that we analyzed and our interviews with brokers indicated that virtually all medium and large firms have access to health insurance coverage. Their estimated offer rates of more than 90 percent show that these firms typically take advantage of their access by offering coverage. While the estimated health insurance offer rates between large and small employers differ markedly, the offer rates among medium and large employers vary moderately by firm size and industry and somewhat more widely by state.

As shown in table 1, the estimated percentage of medium and large employers that offered health insurance in 1996 ranged from 91 to

99 percent, with larger firms more likely to offer health insurance than medium firms. In contrast, the estimated offer rate among employers with fewer than 50 employees averaged less than 50 percent, according to a recent KPMG Peat Marwick health benefits survey.[5] Medium employers that do not offer health coverage generally have access to health insurance but may decide for various reasons that they do not need to offer health benefits as part of their employee compensation package or may consider the cost of providing health coverage to be too high relative to their profits or employees' wages.

Table 1: Estimated Percentage of Private and Public Sector Employers Offering Health Insurance by Firm Size, 1996

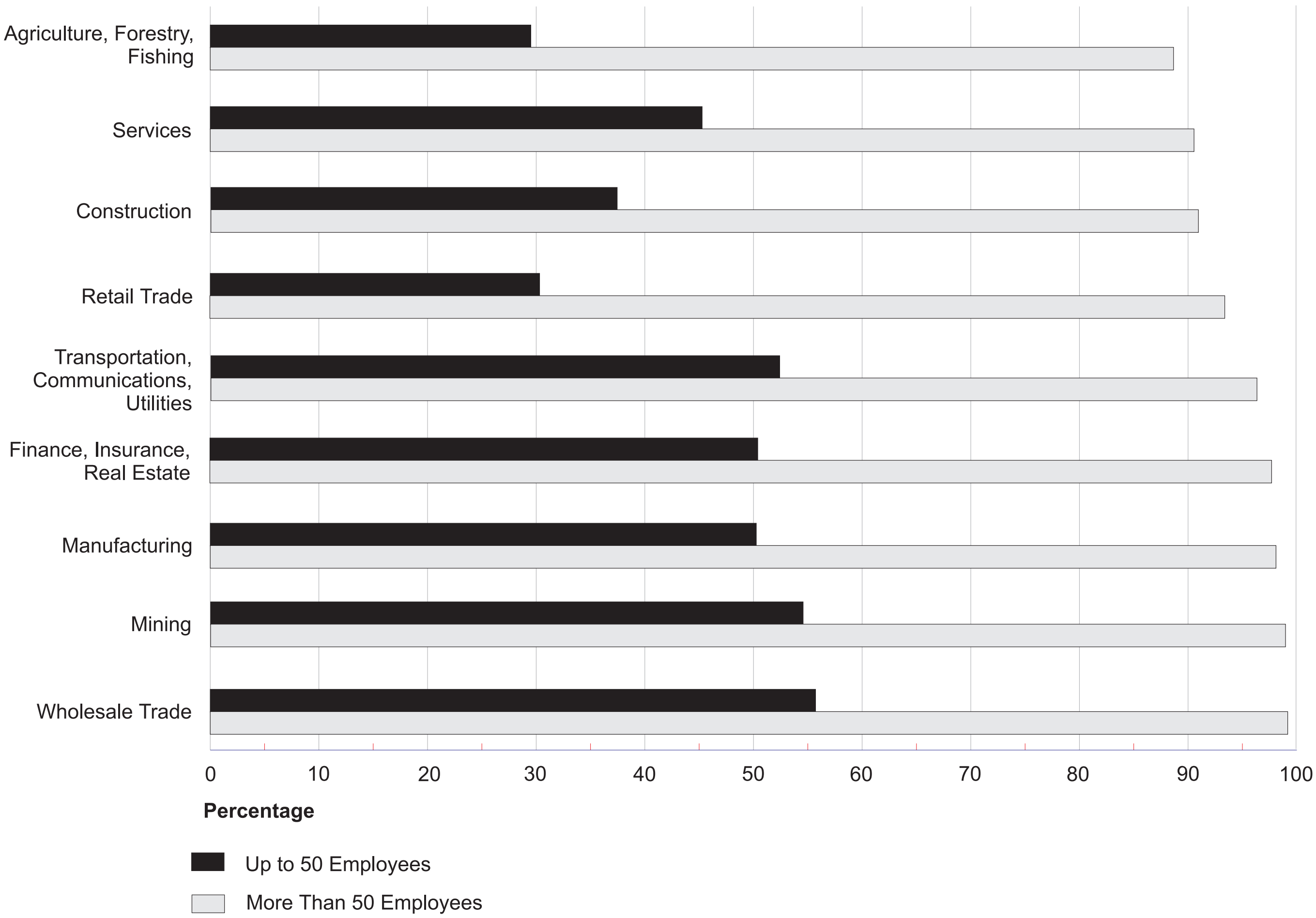
Number of employees in firm	Percentage of firms offering health insurance
Less than 50	48
50-99	91
100-199	96
200 and more	99
All	51

Source: KPMG Peat Marwick.

The most recent data available that permit analysis of health insurance offer rates by industry sector and states across firm sizes come from the 1993 National Employer Health Insurance Survey (NEHIS), managed by HHS' National Center for Health Statistics (NCHS). These data show modest variation in the percentage of employers offering health insurance across industry sectors. Among medium and large employers in different industries, the estimated offer rates in 1993 ranged from 88 to 99 percent. The industries with the highest estimated offer rates (more than 95 percent) were wholesale trade; mining; manufacturing; finance, insurance, and real estate; and transportation, communications, and utilities. As shown in figure 3, slightly lower offer rates (between 88 and 94 percent) prevailed in the retail trade; construction; services; and agriculture, forestry, and fishing industries. The industries with estimated lower offer rates are characterized by higher rates of labor turnover and prevalence of temporary and part-time workers. A similar relationship between offer rates and type of industry was found among small employers, but small employers' offer rates were markedly lower across all industries, ranging from 29 to 56 percent.

[5]KPMG Peat Marwick also reported the following offer rates among small firms in 1996: 1 to 9 employees, 42 percent; 10 to 24 employees, 78 percent; and 25 to 49 employees, 90 percent.

Figure 3: Estimated Percentage of Establishments Offering Health Insurance by Type of Industry and Firm Size, 1993



Source: NEHIS.

Variation by state is wider than by industry. At the state level, the estimated offer rate among medium and large employers ranged from a low of about 72 percent in Wyoming and Texas to almost 100 percent in 14 states. The higher offer rates were concentrated in the Northeast, including the six New England states, New Jersey, and Pennsylvania. Because these estimates are based on survey data, the estimate derived from the sample may be higher or lower than the true percentage of all employers in the state that offer health insurance. Because of the small number of establishments surveyed in certain states, the degree of imprecision for these estimates, as measured by their confidence intervals, can be quite large. Details on the estimated offer rates by firm size in each state and associated confidence intervals for each firm size grouping are in appendix II.

Survey data on offer rates presented above estimate the extent of realized access to insurance, but employers that do not offer health coverage often have potential access. That is, such employers have a choice. According to insurers, insurance brokers, and employers that we interviewed, employers with more than 50 workers generally can get an insurer to write a policy covering their workforce.[6] However, insurers and brokers we interviewed pointed out that the price of such coverage for employers that have close to 50 employees might differ substantially—from employer to employer and from insurer to insurer.

Survey data, studies, and interviews with market participants indicate that variations in health insurance offer rates by firm size, industry, and state reflect decisions that medium and large employers make about offering health coverage, not difficulties they face in obtaining access to health insurance. As discussed below, multiple factors, including the characteristics of a firm and its workforce and the cost of health insurance, influence employers' health insurance decisions.

Differences in Offer Rates Reflect Firms' Wage Levels and Other Traits

Although the likelihood of a firm's offering health insurance is strongly linked with its size, whether an employer offers health coverage to its workers also depends on the characteristics of its workforce, the cost of providing health insurance, the firm's financial condition, and the competitive environment in which it operates. Many of these factors are interrelated, and while research studies we reviewed do not estimate the separate effect of these factors, our analysis of survey data and research studies illustrates the relationship between offer rates and certain

[6]Other evidence on the extent of access is the number of employers that are offered health insurance. According to an analysis by Professor Gail A. Jensen (from Wayne State University) of a 1993 national survey, over 80 percent of employers with 50 to 199 employees reported receiving at least one solicitation to buy health insurance in the last 6 months.

characteristics of a firm's workforce such as employee earnings and labor turnover.[7]

Our analysis of 1993 NEHIS data supports other studies' findings that employers' offer rates are lower when their workforces are characterized by low wages and high labor turnover. In addition, the price of health coverage is likely to contribute to decisions that some medium firms make regarding whether to offer health insurance.

The Role of Wages

NEHIS data show that employers with predominantly low-wage employees—those earning less than $10,000 per year—are less likely to offer health insurance to their workers.[8] The effect is generally stronger the smaller the firm. The difference in estimated health insurance offer rates between employers whose workers typically earned less than $10,000 and those whose workers typically earned $10,000 or more a year in 1993 ranged from 10 percentage points among employers with more than 200 employees to 33 percentage points among employers with 51 to 100 employees. (See table 2.)

Table 2: Relationship Between Employers' Health Insurance Offer Rates and Employees' Earnings by Firm Size, 1993

Numbers in percent

Annual wage level of employees	Up to 50 employees	51 to 100 employees	101 to 200 employees	More than 200 employees
Majority earned less than $10,000	19	61	73	87
Majority earned $10,000 or more	51	94	95	97
Difference between higher- and lower-wage firms	32	33	22	10

Source: NEHIS.

The relatively low offer rate among employers with typically low-wage employees is partly because the cost of health insurance represents a substantial expense for both employers and employees. According to

[7]For further information on employer characteristics that have been related to health insurance decisions, see NCHS, Employer-Sponsored Health Insurance: State and National Estimates, PHS 98-1005 (Hyattsville, Md.: 1997); and Len Nichols and others, Small Employers: Their Diversity and Health Insurance (Washington, D.C.: Urban Institute, 1997). The labor turnover rate measures the aggregate movement of persons into and out of jobs and between jobs.

[8]For further information on health insurance offer rates by employee wage level and firm size, see NCHS, Employer-Sponsored Health Insurance.

Mercer/Foster-Higgins' 1997 national survey of employers, the nationwide average cost of providing health insurance to an employee ranged from $3,200 per year for a health maintenance organization plan to about $3,500 per year for an indemnity plan. For the employer, paying a significant portion of such premiums would add considerably to the compensation of lower-wage workers or could lead the employer to offset the cost of health insurance by reducing wages. For employees earning lower wages, paying the required share of premium costs may be prohibitive.

Contributions employers make toward employees' health benefits are excluded from employees' taxable income. However, this tax exclusion is of lesser value to lower-wage employees who have a lower tax rate than to high-wage employees. Because low-wage workers do not benefit as much as high-wage workers from the tax advantage associated with employer-sponsored health insurance, many low-wage workers are likely to prefer cash wages over health coverage. As a result, lower-wage workers may decline to enroll in an employer-based plan if one is offered. If few workers choose to participate in a plan, the firm may decide not to offer coverage.[9]

The Role of Labor Turnover

Although NEHIS data do not measure the degree of labor turnover, various studies have cited it as predictor of the likelihood that a firm will offer health insurance.[10] Some research literature indicates that firms with high labor turnover rates are less likely to offer health insurance. Quantitative analyses of the link between labor turnover and firms' decisions to offer health insurance are rare, but several health insurance industry experts we interviewed indicated that this relationship exists.[11] Because labor turnover varies by industry, this relationship can be illustrated by examining industry data. U.S. Bureau of the Census data show that industries that have labor turnover rates higher than the national average such as agriculture, forestry and fishing; services; construction; and retail

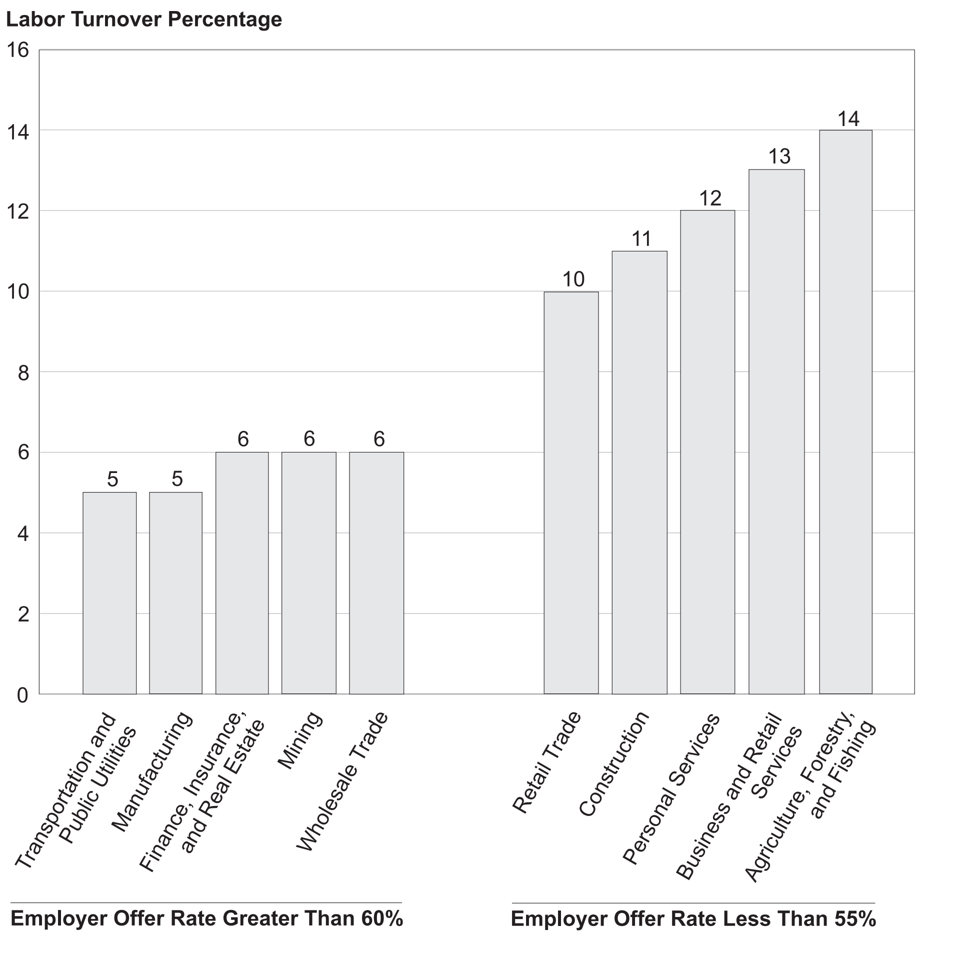
[9]A factor contributing to such a decision is that carriers may require that employers have a certain minimum percentage of eligible employees to enroll in a group health plan. This threshold percentage typically varies between 75 and 100 percent.

[10]See Paul B. Ginsburg, Jon R. Gabel, and Kelly A. Hunt, "Tracking Small-Firm Coverage, 1989-1996," Health Affairs, Jan.-Feb. 1998, pp. 167-171, and Stephen H. Long and M. Susan Marquis, "Gaps in Employment-Based Health Insurance: Lack of Supply or Lack of Demand?" in U.S. Department of Labor, Health Benefits and the Workforce (Washington, D.C.: 1992), pp. 37-42.

[11]See Len M. Nichols and others, Small Employers, p. 40 and Cori E. Uccello, Firms' Health Insurance Decisions: The Relative Effects of Firm Characteristics and State Insurance Regulations (Washington, D.C.: Urban Institute, July 1996).

trade had lower offer rates than industries with low turnover rates.[12] This relationship is illustrated in figure 4, which shows that industries with average monthly labor turnover rates around 10 percent or more had health insurance offer rates below 55 percent.[13] In contrast, industries with average monthly turnover rates below 7 percent had offer rates greater than 60 percent.

Figure 4: Average Monthly Labor Turnover Rates by Industry Group and Estimated Employers' Offers of Health Insurance



Source: U.S. Bureau of the Census and NEHIS data.

[12]U.S. Bureau of the Census, Current Population Reports, Dynamics of Economic Well-Being: Labor Force, 1991-1993 (Washington, D.C.: Aug. 1995). Labor turnover rates that exceed 10 percent are considered high relative to the national average rate of 7 percent. The latest available data on labor turnover rates by industry sector were collected by the U.S. Bureau of the Census in 1991.

[13]Because turnover data were not available by firm size, the estimated offer rates cited in this section are for all firm sizes.

The Role of Premium Costs

In health benefits surveys that examine reasons some employers (especially those in smaller firms) do not offer health insurance, employers have frequently cited high premium costs as a key factor in their decisions. However, data needed to determine the extent to which costs affect the decisions medium and large employers make regarding health coverage are lacking.[14] Although data are available on premiums charged to employers who offer health coverage, data are lacking on premium rates that firms not offering health insurance would face if they sought to offer health coverage. To address the lack of data on actual premiums faced by non-offering firms, researchers have developed various indirect methods but have applied them only to data on small employers, the group with the lowest percentage of employers offering health insurance.[15]

Moreover, available data on average premiums may mask important differences in the premiums charged to some medium firms that share some of the characteristics of small employers. For example, recent data collected by a health benefits consulting firm show that health insurance premiums do not vary greatly by employer size. By contrast, some older studies found that insurance companies charged higher premiums to small companies because of the higher risks and higher cost of marketing and claims administration involved in providing coverage to small companies.[16] In addition, research based on data from the 1980s showed that smaller employers have less power to negotiate price discounts than larger employers. However, some studies that report recent data generally do not adjust for differences in the depth and breadth of health benefits offered. Although smaller firms may be paying premiums similar to those paid by larger firms, smaller firms (including those near the 50-employee

[14]The role of costs in the small-group market has also become increasingly difficult to assess because this market has been changing rapidly. Recent surveys indicate that the importance of high premium costs as a factor in small firms' decisions to offer coverage has been declining. For a discussion of these trends, see Paul B. Ginsburg, Jon R. Gabel, and Kelly A. Hunt, "Tracking Small-Firm Coverage, 1989-1996," Health Affairs, Jan.-Feb. 1998, and Gail A. Jensen and Michael A. Morrisey, "Managed Care and the Small Group Market," paper prepared for the conference: Managed Care and Changing Health Care Markets, American Enterprise Institute, Washington, D.C., Apr. 10, 1997.

[15]For example, a recent study of the role of premiums in the decision to offer insurance uses an econometric approach to predict these unobserved premiums. The study obtained results for a sample of Minnesota firms with less than 50 employees. See Roger Feldman and others, "The Effect of Premiums on the Small Firm's Decision to Offer Health Insurance.", Journal of Human Resources, Vol. 32, No. 4 (24) (Fall 1997), p. 635. For information on other studies, see Michael A. Morrisey and Gail A. Jensen, "State Small Group Insurance Reform," pp. 71-90 in Robert Reich and William White, Health Policy, Federalism, and the American States (Washington, D.C.: Urban Institute Press, 1996).

[16]Some older studies are Stephen H. Long and M. Susan Marquis, "Gaps in Employment-Based Health Insurance," and Arleen Leibowitz, Cheryl Damberg, and Kathleen Eyre, "Multiple Employer Arrangements," in Health Benefits and the Workforce (Washington, D.C.: U.S. Department of Labor, 1992).

threshold) generally have less-generous health benefit packages with higher deductibles. In effect, these smaller firms are paying more per dollar of benefits provided or claims reimbursed.[17]

Some insurance brokers we interviewed said that some medium employers (those closer to the 50-employee threshold) face greater variability in health insurance claims cost and in premiums than larger employers. The extent of premium variation depends on how premiums are set. For example, a firm with 55 employees whose premiums are based on experience rating—the group's historical medical costs—may be charged higher per capita premiums in the future if an employee or dependent were to incur catastrophic medical costs than a firm with 500 to 1,000 employees that also had a single very expensive case. In practice, the extent to which the premium increases for such a firm depends, among other things, on whether the firm can negotiate with its insurer for lower premium costs, the pressures of state regulation that may limit premium variation or restrict premium increases, and the rating practices of the insurer.[18]

Gaps in Eligibility Limit Many Employees' Access to Health Insurance From Their Employers

Although most medium and large businesses offer health coverage, many employees lack access to the health benefits their employers sponsor. In particular, part-time employees or those with a temporary work arrangement are not eligible for their employer-sponsored health insurance plans.[19] Although more than half of such employees obtain health coverage from other sources, such as through their spouses, Medicare or Medicaid, or the individual insurance market, the uninsurance rates for part-time and temporary employees are high—25 and 33 percent, respectively.

[17]For more information on average premiums for medium and small firms, see Gail A. Jensen and others, "The New Dominance of Managed Care: Insurance Trends in the 1990s," Health Affairs, Vol.16, No. 1 (Jan.-Feb. 1997), pp. 125-136.

[18]For information on state approaches to premium rate restrictions among small employers, see Health Insurance Regulation: Variation in Recent State Small Employer Health Insurance Reforms (GAO/HEHS-95-161FS, June 12, 1995). While some medium firms' premiums are experience-rated, other firms in this size group are charged premiums that are based on a combination of the claims cost history of their own employees and the claims cost experience of a much larger pool of individuals.

[19]We use the Bureau of Labor Statistics' (BLS) definition of part-time employees, which applies to persons who work less than 35 hours per week. However, employers vary in how they define part-time work. For example, an employee who works 32 hours may be considered to be a full-time worker in firm A; this same employee may be considered a part-time employee in firm B. We use the term temporary work to refer to any job that is structured to be of limited duration. Temporary employees are individuals in jobs that are expected to last only a limited period of time. This definition includes wage and salary, self-employed, and independent workers who expect their jobs to end within a year or do not expect the jobs to last. BLS classifies these employees as contingent workers.

Most Part-Time Workers Ineligible for Employment-Based Health Coverage Rely on Other Sources but Many Are Uninsured

Part-time employees, who constitute about 19 percent of the total workforce, are much less likely to be eligible for health insurance than full-time employees, even though their employers offer coverage. As table 3 shows, in 1997, 31 percent of part-time employees were eligible for their employer-sponsored health insurance compared with 82 percent of full-time employees. Moreover, the percentage of firms in which part-time employees were eligible for coverage declined from 55 percent in 1994 to 47 percent in 1997, according to KPMG Peat Marwick data.

Table 3: Part-Time and Full-Time Employees' Health Insurance Status, February 1997

Health insurance status	Part-time	Full-time	All
Eligible for coverage from current employer health plan	31%	82%	72%
Total covered	75%	84%	82%
Through current employer	17	70	59
Through other sources[a]	58	14	23
Uninsured	25%	16%	18%
Total number employed aged 16 years and older (in thousands)	21,297	90,268	111,837[b]

[a]Other sources include other job, union, spouse's health plan, Medicaid, Medicare, TRICARE, or purchased in the individual insurance market.

[b]The total is greater than the sum of part-time and full-time employees because the usual status of a person's main job could not be determined for a small number of respondents.

Source: BLS, unpublished tabulations from the February 1997 Contingent and Alternative Employment Arrangement Survey.

Despite their relatively low eligibility rate, about three-quarters of part-time employees had health insurance coverage in 1997. The main reason for the discrepancy between eligibility and coverage rates is that over half of part-time employees were able to obtain health insurance coverage through other sources, such as other jobs, family members, the individual insurance market, and Medicare or Medicaid. Nonetheless, about one-fourth of the part-time workforce (or 5.4 million employees) was uninsured as of February 1997, according to data from BLS. Uninsured part-time employees accounted for about 27 percent of the 19.9 million uninsured wage and salary workers in 1997. The majority of the uninsured part-time employees were between the ages of 16 and 34, a group that generally has lower earnings compared with most older workers.[20]

[20]Like uninsured part-time workers, the uninsured in general tend to be young.

Similar disparities between the eligibility of part-time and full-time workers are observed when looking at data for different firm sizes. Agency for Health Care Policy and Research (AHCPR) data for 1996 show that full-time employees were offered health insurance from their current main employers at more than twice the rate of part-time employees for firms with up to 200 employees. For firms with more than 200 workers, the ratio of full-time to part-time rates of eligibility is about 1.7 to 1. (See table 4.)

Table 4: Part-Time and Full-Time Employees Offered Health Insurance at Current Main Job by Employer Size, 1996

Numbers in percent

Number of employees	Part-time	Full-time	All
Up to 50	19	66	53
51-100	40	90	80
101-200	37	91	83
Over 200	57	96	92
All	27	80	69

Note: Employer size is defined by the number of employees working for organizations. Percentages include private and public employees. Public sector employment accounted for about 16 percent of U.S. workers aged 16 years and over in 1996.

Source: HHS/AHCPR Medical Expenditure Panel Survey (MEPS).

Temporary Employees Are Less Likely to Be Offered Health Insurance Than Permanent Employees

In addition to work schedule, anticipated job duration—short-term or temporary versus more long-term or permanent—affects the likelihood that employees will be eligible for their employer-provided health benefits. Temporary employees are less than half as likely to be eligible for health coverage than permanent workers. Specifically, of the 5.1 million temporary employees in the U.S. workforce in 1997, only 35 percent were eligible to participate in their employers' health insurance.[21] In contrast, 74 percent of permanent employees were eligible for their employers' health insurance.

The percentage of temporary workers eligible for their employers' health insurance varies across industries. Private-sector industries with the lowest eligibility rates for temporary employees in 1997 were agriculture (18 percent), retail (23 percent), and construction (29 percent). By contrast, eligibility rates for temporary employees were highest among the manufacturing and transportation industries (45 and 46 percent). In general, the data show a direct relationship between the eligibility rates

[21]Temporary employees constituted about 5 percent of the U.S. workforce in 1997. Data are not readily available to categorize temporary workers by firm size; thus, this discussion compares eligibility rates for all temporary workers with all permanent workers.

for temporary workers and the offer rates for all employees within a particular industry sector. For example, industries characterized by low rates of eligibility for temporary workers (agriculture, retail trade, and construction) also had relatively low offer rates for all employees, as shown in figure 3.

Although eligibility rates for temporary workers were lower than for permanent workers, two-thirds of temporary workers had health insurance from a variety of sources (often through family health coverage). Nonetheless, the uninsurance rate for temporary workers was about 33 percent (or 1.7 million people) in 1997 compared with 17 percent for permanent workers. Moreover, temporary workers generally earn less than permanent workers. The median weekly earnings of temporary workers in 1997 was $266 compared with $444 for permanent workers.[22] Consequently, many temporary workers might not be able to afford their share of health insurance cost even if they were eligible for their employer-sponsored health plans.

Conclusions

Under HIPAA, insurers cannot deny coverage to a firm with 50 workers or less, but some have questioned whether firms just past this threshold escape the difficulties that small firms used to face. As the evidence presented above shows, virtually all medium and large firms have access to health insurance. However, health coverage is not universal. Despite access to insurance, about 10 percent of firms with 50 to 99 workers (and a small proportion of larger firms) choose not to offer it, and some firms may be deterred by what they see as unfavorable or unaffordable premiums. Perhaps more important, even when an employer offers health insurance, the offer may not extend to all the firm's workers. Part-time and temporary employees often are not eligible for an employer's plan, and lower-wage workers may not find it affordable. In the market for health insurance, employers' and workers' decisions are voluntary. Consequently, a reversal of an employer's decision to forgo offering coverage or an employee's decision to decline an offer hinges on coverage becoming more attractive and affordable.

Comments From Outside Reviewers

We obtained comments on a draft of this report from a number of experts on private health insurance including those with NCHS, the Employee Benefit Research Institute, and the Health Insurance Association of

[22]The lower median earnings for temporary workers is influenced by the relatively high concentration of part-time workers in that category. In 1997, 43 percent of temporary workers were part-time, compared with 18 percent of permanent workers.

America. The reviewers agreed with the contents of the report and suggested a number of technical corrections that we incorporated where appropriate.

We are sending copies of this report to interested congressional committees and are making copies available to others on request.

Please call me at (202) 512-7114 if you or your staff have any questions about this report. Other GAO contacts and staff acknowledgments for this report are listed in appendix III.

William J. Scanlon

William J. Scanlon
Director, Health Financing and
Systems Issues

List of Addressees

The Honorable William V. Roth, Jr.
Chairman
The Honorable Daniel Patrick Moynihan
Ranking Minority Member
Committee on Finance
United States Senate

The Honorable James M. Jeffords
Chairman
The Honorable Edward M. Kennedy
Ranking Minority Member
Committee on Labor and Human Resources
United States Senate

The Honorable Thomas J. Bliley, Jr.
Chairman
The Honorable John D. Dingell
Ranking Minority Member
Committee on Commerce
House of Representatives

The Honorable William F. Goodling
Chairman
The Honorable William Clay
Ranking Minority Member
Committee on Education and the Workforce
House of Representatives

The Honorable William Archer
Chairman
The Honorable Charles B. Rangel
Ranking Minority Member
Committee on Ways and Means
House of Representatives

Contents

Abbreviations

AHCPR	Agency for Health Care Policy and Research
BLS	Bureau of Labor Statistics
HHS	Department of Health and Human Services
HIPAA	Health Insurance Portability and Accountability Act of 1996
MEPS	Medical Expenditure Panel Survey
NCHS	National Center for Health Statistics
NEHIS	National Employer Health Insurance Survey

Methodology

The Health Insurance Portability and Accountability Act of 1996 (P.L. 104-191, Aug. 21, 1996) directed us to examine the extent to which classes of large employers in the different states have access to health insurance and the circumstances for the lack of access, if any. In consultation with the offices of the committees interested in the subject matter, we agreed to report on (1) the extent to which medium and large employers in different states and categories have access to health insurance and the barriers (if any) that these employers face in obtaining health insurance; (2) major factors, including health insurance costs, that affect employers' decisions to offer health insurance; and (3) the extent to which employees are eligible for and covered by their employers' health insurance.[23]

Medium and Large Employers' Access to Health Insurance

Because direct measures of access do not exist, we used available data on employers that offer health insurance as a proxy for the extent of access. This may understate the true level of employers' access to insurance because it excludes employers that have access to health insurance but decide not to offer it to their employees.

To analyze employers' access to health insurance in different states and classes, we used data covering 1993 (the most recent source for state-level estimates) from the National Employer Health Insurance Survey (NEHIS) and from KPMG Peat Marwick's survey of employers for 1996.

NEHIS

NEHIS was managed by the National Center for Health Statistics (NCHS), a component of the Centers for Disease Control and Prevention of the Department of Health and Human Services in partnership with the Agency for Health Care Policy Research and the Health Care Financing Administration. This survey had usable responses from about 35,000 private business establishments. The sampling unit for NEHIS was the establishment, defined as "an economic unit, generally at a single physical location, where business is conducted or where services or industrial operations are performed."[24] A primary reason that NEHIS sampled

[23]While the act speaks only of small and large employers and defines large employers as those that employed an average of at least 51 employees during the preceding calendar year and that employ at least 2 employees on the first day of a plan year, we are using the terms medium and large employers to emphasize the broad range of employers included in that definition—firms employing from 51 to several thousand employees.

[24]Establishments are not the same as firms. Firms may be composed of one or more establishments under common ownership or control, and a large firm may have several establishments (or locations) where economic activity takes place within a single state or in several states.

establishments rather than firms is that establishments are confined within state borders, allowing state estimates.

NEHIS included a probability sample of employers in each state and the District of Columbia, and we used these data because the data set was large enough to allow us to

- group establishments into categories by number of employees, such as firms with 50 or fewer employees, 51 to 100 employees, 101 to 200 employees, and more than 200 employees,[25]
- report state-level information; and
- group establishments into categories, such as type of industry.

Businesses in all states and the District of Columbia are represented in the survey. The minimum number of participating establishments was 383 in Alaska; the maximum number was 1,083 in California. Respondents were asked to describe the characteristics of their firms and their health insurance programs as of December 31, 1993. The results from NEHIS included in this report are for private sector establishments only.

NCHS staff performed certain data analyses for us at our request. We did not independently verify the data entry or data analysis work NCHS performed, although we confirmed that the results of its analyses for us were consistent with results contained in a report NCHS prepared under its own name.

Survey data based on samples of populations are subject to sampling errors, which can be expressed as confidence intervals around a point estimate. The estimated percentage of establishments that offered health insurance in the states, the District of Columbia, and nationwide are shown with the corresponding confidence intervals for those point estimates in appendix II. Those data are depicted as bars, showing the relative position of the estimated offer rates and the confidence interval for those estimates at the 95-percent confidence level. NEHIS data were also used in other tables describing features of establishments that offered health insurance. The estimated sampling errors (at the 95-percent confidence level) for the percentage of establishments offering health insurance are

[25]For grouping by firm size, the unit of analysis is the establishment. Thus, survey responses from an establishment of 50 employees that is part of a firm with more than 200 employees nationwide would be included in the group of firms with more than 200 employees.

- by industry type and firm size, in figure 3, plus or minus 1 percent to plus or minus 9 percent and
- by general wage level, by firm size and nationwide, in table 2, plus or minus 1 percent to plus or minus 8 percent.

KPMG Peat Marwick

KPMG Peat Marwick conducts and publishes its results from surveys on employee compensation and benefits. We used data from KPMG Peat Marwick (some published and some unpublished) to provide more current estimates of the percentage of business firms in various size categories that offered health insurance in 1996. These survey data included the company's annual survey of firms employing 200 or more employees, supplemented by an additional survey of firms with fewer than 200 employees. The surveys were stratified random surveys of a total of about 2,600 employers nationwide. While more current than the 1993 NEHIS data, KPMG Peat Marwick did not report state-level estimates from its survey. Thus, we used these data to compare with the NEHIS data at the national level.[26] We did not independently verify the KPMG Peat Marwick data, but these data are widely used by researchers.

Factors Involved in Employer Decisions to Offer Health Insurance

To examine the reasons that employers who had access to insurance decided not to offer health insurance to their employees, we reviewed recent studies on health insurance published by health insurance researchers and our earlier reports and interviewed a broad range of people who were knowledgeable about the insurance market and employers' behavior. We interviewed benefit consultants and health policy researchers; representatives of employers in California, Pennsylvania, and Virginia who employed from 80 to 185 employees; insurance agents and brokers in California, Maine, Massachusetts, and Oregon; representatives of the Health Insurance Association of America and insurance companies; and state insurance regulators in Oregon, Pennsylvania, Utah, and Wisconsin. We selected the persons we interviewed to provide a geographical cross-section of the nation.

Employee Access to Employer-Sponsored Health Insurance

Another aspect of access to health insurance is the employee's view. Both an employer and employee may have access to insurance. The employer may decide to offer insurance, but an employee may decline to enroll. People may decline to enroll for a variety of reasons, including not being

[26]The data needed to compute sampling errors for the estimates from KPMG Peat Marwick were not available to us.

able to afford the insurance or having coverage through another source, such as another family member's coverage.

Our data sources for employee access to health insurance included

- the Agency for Health Care Policy and Research and NCHS' Medical Expenditure Panel Survey (MEPS) Household Component, which provides current information on health insurance offers and coverage from a sample of about 25,000 persons, and
- the Bureau of Labor Statistics' (BLS) 1994, 1995, and 1997 surveys of small, medium, and large employers.

The MEPS data are the source of our estimate of the percentage of employees eligible for their employer-based health insurance plans in 1996, by firm size and work schedule, included in table 4. The sampling errors for those estimates are plus or minus 1 percent to plus or minus 8 percent. Estimates of sampling errors for data we obtained from BLS were not available to us. Although we did not independently verify the accuracy of the data, the MEPS and BLS data that we used were published or made available for others' use by the sponsoring agencies.

Health Insurance Offer Rates by Firm Size and State, 1993

Figure II.1: Health Insurance Offer Rates for Firms With Up to 50 Employees and Firms With More Than 50 Employees, Nationwide and by State, 1993, Based on NEHIS Data

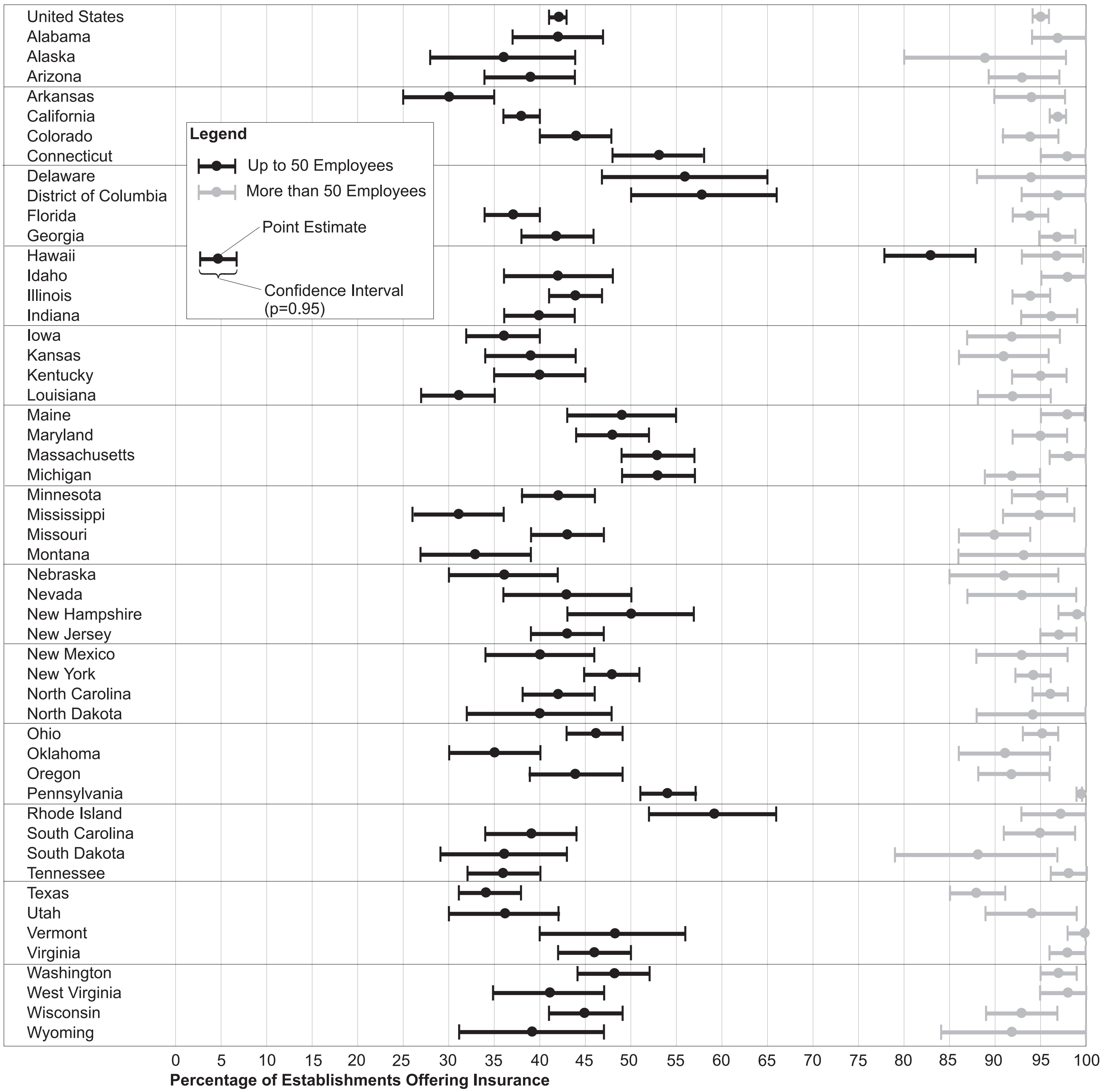


Figure II.2: Health Insurance Offer Rates for Firms With 51 to 100 Employees, Nationwide and by State, 1993, Based on NEHIS Data

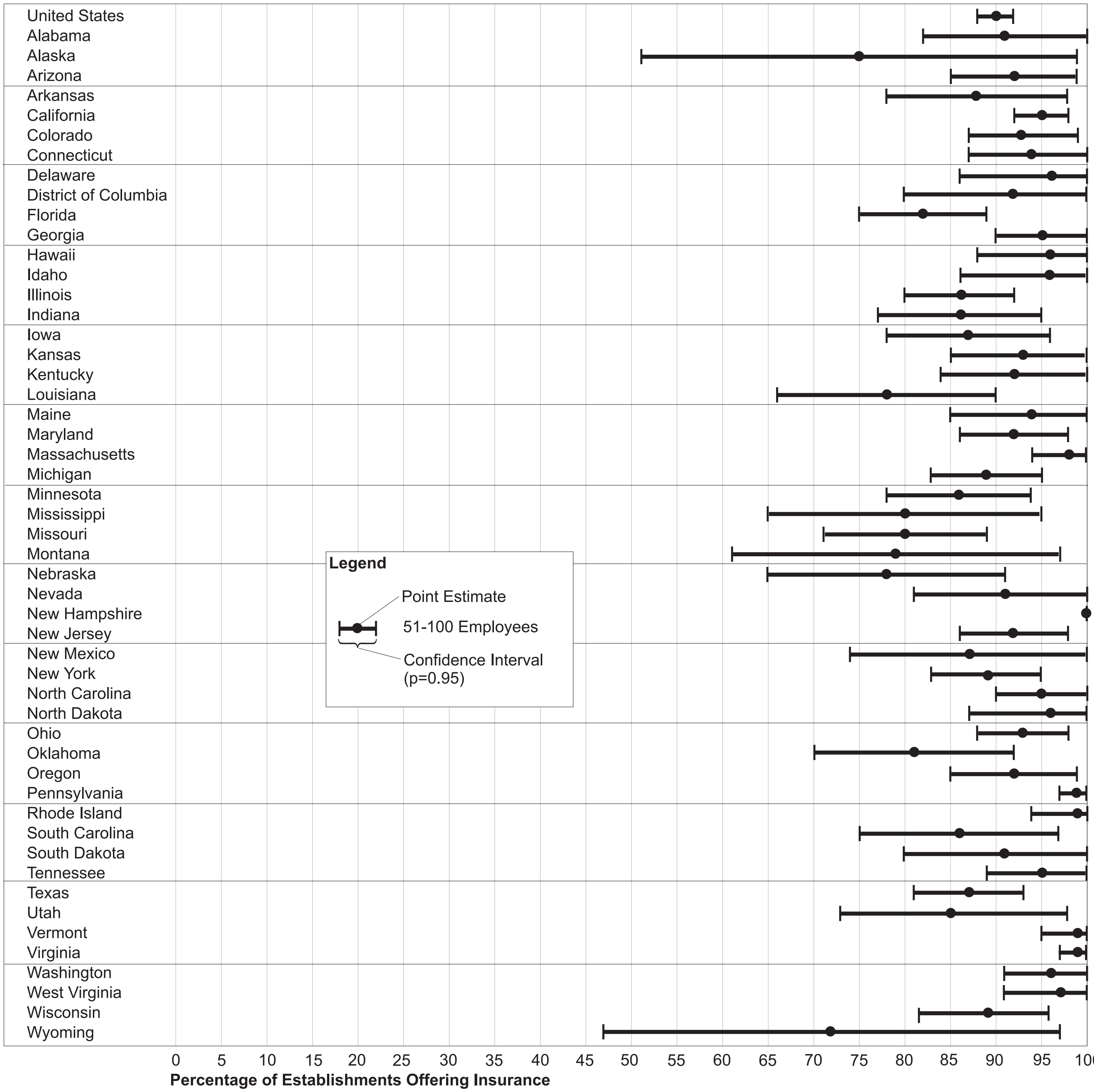


Figure II.3: Health Insurance Offer Rates for Firms With 101 to 200 Employees, Nationwide and by State, 1993, Based on NEHIS Data

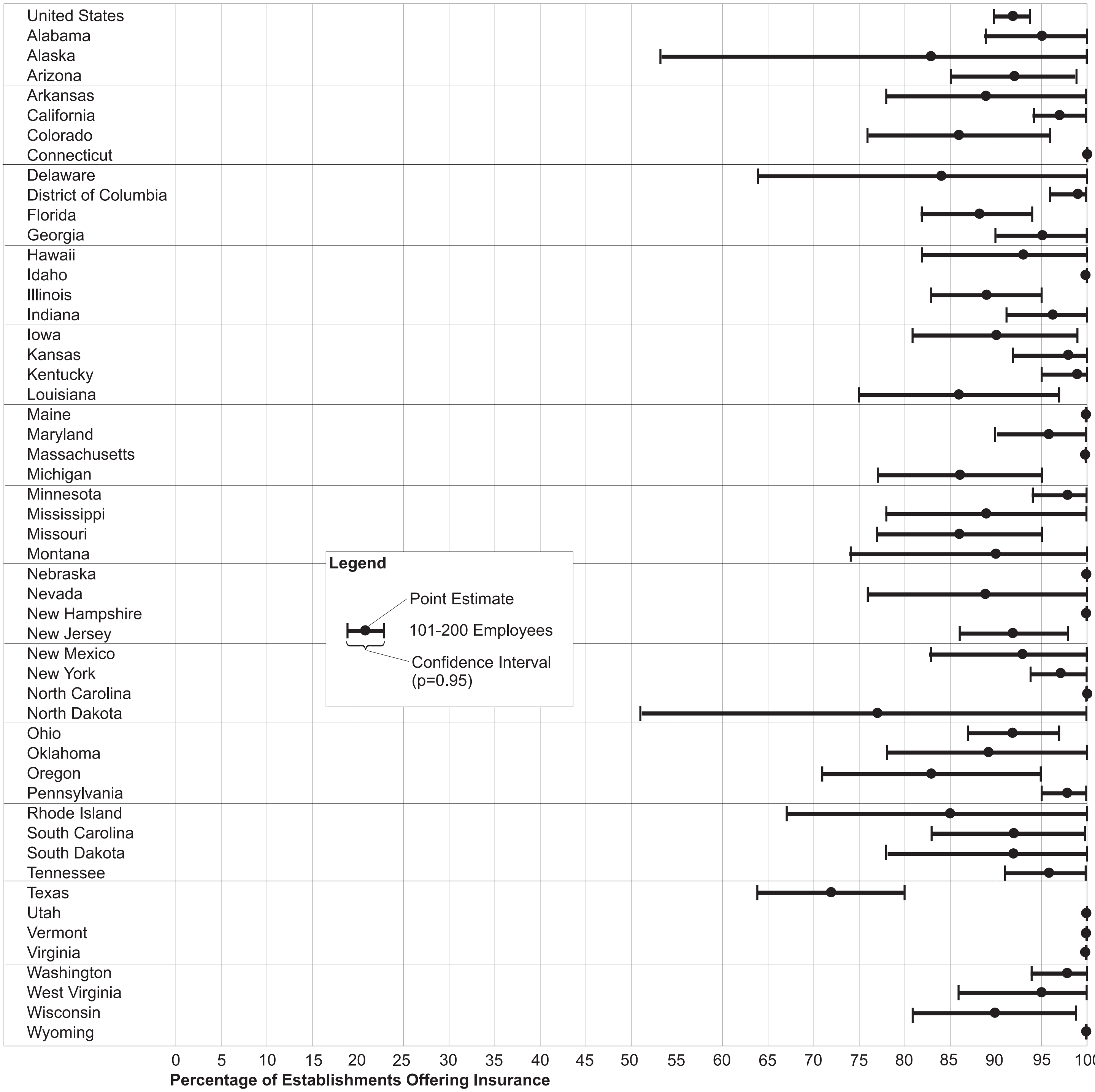
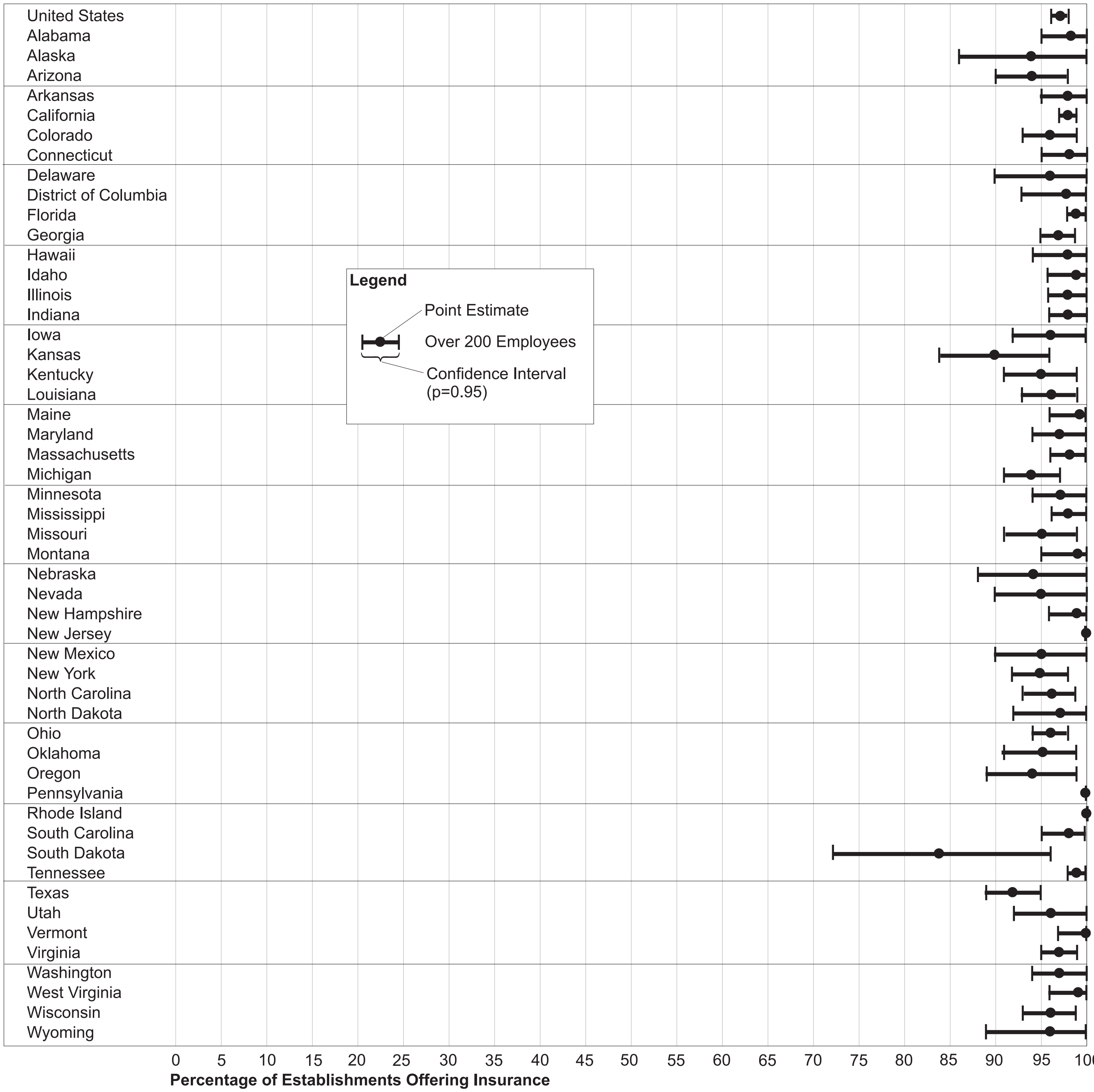


Figure II.4: Health Insurance Offer Rates for Firms With More Than 200 Employees, Nationwide and by State, 1993, Based on NEHIS Data



GAO Contacts and Staff Acknowledgments

GAO Contacts

Jonathan Ratner, Senior Health Economist, (202) 512-7107
Carmen Rivera-Lowitt, Evaluator-in-Charge, (202) 512-4342

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Related GAO Products

Private Health Insurance: Declining Employer Coverage May Affect Access for 55- to 64-Year-Olds (GAO/HEHS-98-133, June 1, 1998).

Health Insurance Standards: Implications of New Federal Law for Consumers, Insurers, Regulators (GAO/T-HEHS-98-114, Mar. 19, 1998).

Health Insurance Standards: New Federal Law Creates Challenges for Consumers, Insurers, Regulators (GAO/HEHS-98-67, Feb. 25, 1998).

The Health Insurance Portability and Accountability Act of 1996: Early Implementation Concerns (GAO/HEHS-97-200R, Sept. 2, 1997).

Private Health Insurance: Continued Erosion of Coverage Linked to Cost Pressures (GAO/HEHS-97-122, July 24, 1997).

Retiree Health Insurance: Erosion in Employer-Based Health Benefits for Early Retirees (GAO/HEHS-97-150, July 11, 1997).

Employment-Based Health Insurance: Costs Increase and Family Coverage Decreases (GAO/HEHS-97-35, Feb. 24, 1997).

Private Health Insurance: Millions Relying on Individual Market Face Cost and Coverage Tradeoffs (GAO/HEHS-97-8, Nov. 25, 1996).

Health Insurance Regulation: Varying State Requirements Affect Cost of Insurance (GAO/HEHS-96-161, Aug. 19, 1996).

Health Insurance Portability: Reform Could Ensure Continued Coverage for Up to 25 Million Americans (GAO/HEHS-95-257, Sept. 19, 1995).

Employer-Based Health Plans: Issues, Trends, and Challenges Posed by ERISA (GAO/HEHS-95-167, July 25, 1995).

Health Insurance Regulation: Variation in Recent State Small Employer Health Insurance Reforms (GAO/HEHS-95-161FS, June 12, 1995).

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